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Required Report - public distribution

Date: 5/15/2014

GAIN Report Number: PL1407

EU-28

Dairy and Products Semi-annual

Semi-annual

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Report Highlights:

Since fall of 2013 EU-28 milk deliveries are on a rise due to favorable world market conditions and growing domestic demand for dairy products, favorable feed conditions and expected discontinuation of the EU milk quota system in 2015. High cheese demand, both domestically (EU-28) and internationally (primarily Russia), is attracting fluid milk into that sector. In 2014, fluid milk output is expected to increase one percent over 2013 in response to projected lower feed costs and stronger demand for milk products in supply-tight international dairy markets. Although the majority of increased 2014 milk output is expected to be directed to the manufacturing of cheese, production of milk powders, especially NFDM, and butter should show expansion trends as well.

Executive Summary:

Production:

In 2013, milk output exceeded previous expectations as production in the fourth quarter more than offset the lower volume of milk deliveries during the first nine months of the year. In the second half of 2013, tightening world dairy stocks and favorable growing conditions for crops in summer/fall led to lower feed prices, higher farm-gate prices for fluid milk, and stimulated EU-28 dairy production moving into 2014. The 2013 overall increase in milk production was directed mostly towards cheese production, which remained in high demand both domestically and internationally.

However, increased availability of raw milk towards the end of 2013 resulted in higher than originally predicted production of butter and Whole Dry Milk (WDM), while production of Non-Fat Dry Milk (NFDM) fell below 2012 levels. The EU-28 dairy herd's long-term contraction trend appears to have stopped in response to strengthening farm-gate prices for milk and market expectations associated to the EU's discontinuation of its milk quota system. For 2014, dairy cow inventories are expected to increase which, combined with higher output per cow and favorable feed conditions expected later in the year, should spur an increase in total EU milk production.

Market Intervention:

In early March 2014, only 3,300 MT of butter remained in PSA stocks. Within the new Common Agricultural Policy 2014-2020 the Private Storage Act (PSA) is no longer a system that automatically opens March 1 and closes mid-August. Opening of the PSA now requires a decision by the European Commission, which would have to review the current market situation first.

Trade:

In 2014, increased availability of dairy products stemming from higher production is expected to result in growing exports of all milk products in comparison to 2013. Exports of cheeses are expected to increase on rising production and continuing strong demand on the world market. Butter exports are expected to increase in 2014 in response to higher production and reduced price making EU butter more competitive on the world market. In the first two months of 2014 exports of butter to Russia (the major importer of butter from the EU-28) increased by almost 50 percent. However, viability of that market is in question as Russia keeps implementing import bans for certain EU member states or individual processing plants. In addition, the weaker Ruble may reduce the attractiveness of the Russian market for EU exporters. It is expected that in 2014 exports of milk powders, (NFDM and WDM), will increase due to higher output in comparison to 2013, reduction of prices and strong export demand from the world market.

DISCLAIMER

The PS&D numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS EU offices to consolidate PS&D's from all EU-28.

The authors of this report wish to recognize all colleagues that helped with this report discussed the numbers and the report content, as well as all who helped with the editing. The collaboration of the following FAS colleagues in the EU member states has been critical for the completion of this report:

**Xavier Audran from FAS Paris covering France
Ornella Bettini from FAS Rome covering Greece and Italy
Mila Boshnakova from FAS Sofia covering Bulgaria
Monica Dobrescu from FAS Bucharest covering Romania
Bob Flach from FAS the Hague covering the Benelux, Finland, Denmark and Sweden
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Dairy, Milk, Fluid

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid European Union	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,051	23,053	23,052	23,193	23,050	23,505
Cows Milk Production	139,000	139,000	139,100	140,100	140,000	141,500
Other Milk Production	4,750	4,750	4,750	4,750	4,750	4,750
Total Production	143,750	143,750	143,850	144,850	144,750	146,250
Other Imports	3	33	3	23	3	20
Total Imports	3	33	3	23	3	20
Total Supply	143,753	143,783	143,853	144,873	144,753	146,270
Other Exports	353	390	430	420	450	440
Total Exports	353	390	430	420	450	440
Fluid Use Dom. Consum.	33,800	33,800	33,500	33,800	33,400	33,800
Factory Use Consum.	109,600	109,593	109,923	110,653	110,903	112,030
Feed Use Dom. Consum.	0	0	0		0	
Total Dom. Consumption	143,400	143,393	143,423	144,453	144,303	145,830
Total Distribution	143,753	143,783	143,853	144,873	144,753	146,270

1000 HEAD, 1000 MT

Production:

2013

In 2013, EU-28 dairy cow inventories increased. This trend is expected to continue in 2014. Farmers are building cow inventories in response to favorable dairy production conditions and in expectation the EU dairy quota system will discontinue as scheduled on April 1, 2015.

In 2013, EU-28 milk deliveries increased 0.8 percent year-on-year with production increases registered principally during the last quarter 2013. EU milk deliveries had actually declined 0.4 percent over the first nine months of 2013 versus same period 2012. Europe's long and severe 2012/2013 winter, and late spring negatively impacted pasture conditions thus milk production in the first 9 months of the year.

Record high prices in the international dairy market led to an increase of average EU-28 farm-gate milk prices and increased production towards the end of the 2013. Although there was an expectation that milk deliveries would increase towards the end of 2013, the scale of the increase greatly exceeded the prediction reported in the EU-28 Annual Dairy and Products Report (published in mid-October 2013).

2014

The approaching termination of the milk quota system in 2015, the milder but wetter 2013/14 winter, and strong domestic and export demand for dairy products are pushing farm-gate prices higher for milk which, in turn, is spurring producer efforts to increase milk output. Dairy cow numbers are growing as farmers expand operations to generate higher overall milk production.

More favorable weather conditions, improved feed availability, along with continued efforts to enhance genetic stock in national herds are expected to generate higher per cow milk yield averages in 2014.

Despite the one percent milk quota increase in MY 2013/2014 (the last one percent increase before discontinuation of the quota system) several EU member states still produced in excess of their quota and will be charged a super levy by the EC.

Consumption:

In 2014, fluid milk consumption is expected to remain stable

Trade:

In 2013, overall external exports increased by five percent, however exports to China increased by 80 percent. In the first two months of 2014, extra EU-28 exports of fluid milk increased by six percent driven by continuing strong demand by China for UHT milk.

Dairy, Cheese**Production, Supply and Demand Data Statistics:**

Dairy, Cheese European Union	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	9,142	9,287	9,175	9,380	9,250	9,450
Other Imports	78	78	75	75	75	75
Total Imports	78	78	75	75	75	75
Total Supply	9,220	9,365	9,250	9,455	9,325	9,525
Other Exports	776	768	800	787	825	800
Total Exports	776	768	800	787	825	800
Human Dom. Consumption	8,444	8,597	8,450	8,668	8,500	8,725
Other Use, Losses	0	0	0	0	0	
Total Dom. Consumption	8,444	8,597	8,450	8,668	8,500	8,725
Total Use	9,220	9,365	9,250	9,455	9,325	9,525
Ending Stocks	0	0	0	0	0	0
Total Distribution	9,220	9,365	9,250	9,455	9,325	9,525
1000 MT						

Please note: The data for cheese output in 2012 were updated upwards in order to reflect current EU production statistics. Source: “Short term outlook for arable crops, meats and dairy – winter 2014”.

Production:

In 2013, EU-28 cheese production increased by over one percent due to growing exports and domestic demand. In the final quarter 2013, increased milk production stimulated cheese production. In 2014 strong world market prices for cheese and higher availability of raw milk are expected to stimulate output even further than previously projected.

Consumption:

In 2013, the increased cheese output was diverted into domestic consumption and increased exports. The EU-28 domestic cheese consumption increased in parallel with the economic recovery. In 2014, growing supplies and improving economic situations in some member states are expected to stimulate cheese consumption further leading to an increase in overall consumption relative to 2013.

Trade:

In 2013, EU-28 cheese exports were strong mainly due to higher demand from Russia. Major external markets for EU-28 cheeses include Russia, the United States, Switzerland, Japan and Algeria. EU-28 first quarter 2014 cheese exports to Russia remained unchanged year-on-year however, uncertainty over the longer-term viability of that market is in question as Russia keeps implementing import bans for certain EU member states or individual processing plants. In addition, the weaker Ruble may reduce the attractiveness of the Russian market for EU exporters. Cheese is supplied to Russia primarily from Lithuania, the Netherlands, Finland and Poland. In 2014, further export growth is expected as domestic output gears up to meet continuing demand on the world market.

In 2013, the Dutch sector significantly increased cheese exports to Russia. During the beginning of 2014, a temporary import halt by Russia was placed on half the Dutch supplying operations. This stoppage has reportedly now been lifted.

Cheese imports are projected to remain within the established import quotas.

Dairy, Butter

Production, Supply and Demand Data Statistics:

Dairy, Butter European Union	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	29	29	33	33	25	24
Production	2,100	2,100	2,090	2,100	2,100	2,130
Other Imports	55	52	55	43	55	50
Total Imports	55	52	55	43	55	50
Total Supply	2,184	2,181	2,178	2,176	2,180	2,204
Other Exports	120	121	120	122	120	140
Total Exports	120	121	120	122	120	140
Domestic Consumption	2,031	2,027	2,033	2,030	2,035	2,064
Total Use	2,151	2,148	2,153	2,152	2,155	2,204
Ending Stocks	33	33	25	24	25	0
Total Distribution	2,184	2,181	2,178	2,176	2,180	2,204

1000 MT

Production:

In 2013, EU-28 butter output remained at the 2012 level as increased supplies of raw milk were mostly processed into cheese and WDM. Higher export and domestic demand coupled with low stocks are expected to stimulate production in 2014. However, overall production will be limited by availability of raw milk and competition with more profitable cheese and WDM production.

Consumption:

In 2013, EU-28 domestic butter consumption remained almost equal to the previous year's level due to stable production. Consumption growth is expected in 2014. Increase of consumption stems from the increased production and expected reductions in stocks resulting from changes in administration of the

Private Storage Aid (PSA) in 2014. Although health concerns are still a factor among some consumers, economic considerations are playing a larger role in consumer buying decisions.

Trade:

In 2014, exports of butter are expected to increase in comparison to previous year's level due to higher output and more competitive export prices. In the first two months of 2014, EU-28 exports of butter and butter oil increased by 16 percent in comparison to the same period of 2013. In the first two months of 2014 exports of butter to Russia (the major importer of butter from the EU-28) increased by almost 50 percent. Exports of butter are forecast to remain strong towards the end of 2014 because of significant decrease of butter prices within last 6 months making EU butter competitive on the world market, as well as limited global supplies and stocks. In the first two months of 2014, imports within the EU import quota of 77,400 MT set aside for New Zealand amounted to 19,158 MT, 225 percent more than in the comparative period of 2013.

Stocks:

Participation in the 2013 Private Storage Aid (PSA) decreased considerably. Butter stocks, built through the 2013 PSA program (March 1-August 15, 2013) amounted to 89,391 MT. The PSA program amount was 43 percent lower than recorded for 2012 indicating market demand for butter domestically and internationally.

In early March 2014, there was only 3,300 MT of butter left in the PSA stocks. Within the new Common Agricultural Policy 2014-2020 the PSA is no longer an automatic system opening March 1 and closing mid-August. Opening of the PSA requires European Commission's decision, which depends on the current market situation. Although butter prices decreased from Euro 4,200/MT in September 2013 to current Euro 3,600/MT they still remain almost 50 percent above the EU buy-in level which may result in lack of stocks at the end of 2014.

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry European Union	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	50	50	0	0	0	0
Production	1,270	1,270	1,210	1,270	1,270	1,330
Other Imports	2	2	5	5	5	5
Total Imports	2	2	5	5	5	5
Total Supply	1,322	1,322	1,215	1,275	1,275	1,335
Other Exports	523	520	415	408	475	475
Total Exports	523	520	415	408	475	475
Human Dom. Consumption	799	802	800	867	800	860
Other Use, Losses	0	0	0		0	0

Total Dom. Consumption	799	802	800	867	800	860
Total Use	1,322	1,322	1,215	1,275	1,275	1,335
Ending Stocks	0	0	0	0	0	0
Total Distribution	1,322	1,322	1,215	1,275	1,275	1,335
1000 MT						

Production:

In 2013, EU-28 Non-Fat Dried Milk (NFDM) output remained at the 2012 level due to limited availability of raw milk supplies in the first nine months of the year. In the first nine months of 2013 output of NFDM was almost eight percent lower than in the same period 2012. Improved supplies of raw milk and strong world market prices in the last quarter of 2013 increased amount of milk processed into NFDM; however, overall 2013 production did not exceed 2012 level. It is expected that in 2014 output of NFDM will increase significantly as a result of three factors: 1) new drying capacity in Germany; 2) larger supplies of raw milk; and 3) increasing demand in export markets, mainly from China.

Consumption:

Despite stable output, NFDM consumption increased in 2013 mainly due to lower exports. Higher NFDM production in 2014 is expected to be directed mainly into export channels as consumption is expected to remain at the 2013 level. Please note that the category “domestic consumption” includes commercial stocks.

Trade:

A drop of NFDM exports in 2013 stemmed mostly from lower year-on-year imports by Algeria, Egypt and Vietnam. The reduction of exports was a combination of record high prices for milk powders in 2013 and reduced purchasing power of the North African countries. In 2014, exports of NFDM are expected to increase due to higher output of product in comparison to 2013, reduction of prices and strong export demand from the world market. The decrease of prices is attributed to growing output in the United States and European Union and increased projections for the output in Oceania. In the first two months of 2014, EU-28 exports of NFDM were 50 percent higher than in the same period of 2013. Although shipments to Algeria, the number one export destination, were down nine percent, exports to China increased seven fold to 13,162 MT.

Stocks:

By the end of 2012 NFDM intervention stocks had fallen to zero as product was consumed through food assistance programs. The current level of prices is well above the intervention price.

Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder European Union	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	660	669	645	685	650	700
Other Imports	3	3	4	3	2	4
Total Imports	3	3	4	3	2	4
Total Supply	663	672	649	688	652	704

Other Exports	386	386	370	374	375	390
Total Exports	386	386	370	374	375	390
Human Dom. Consumption	277	286	279	314	277	314
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	277	286	279	314	277	314
Total Use	663	672	649	688	652	704
Ending Stocks	0	0	0	0	0	0
Total Distribution	663	672	649	688	652	704
1000 MT						

Production:

In 2013, EU-28 Whole Dry Milk (WDM) production increased due to higher supplies of raw milk, continuing export demand and strong prices. However, the increase of output was limited because of higher return from manufacturing of cheese over production of milk powders and butter. Strong competition for raw milk supplies in the first nine months of 2013, resulting from delayed spring flush, limited increase of WDM production. However, higher milk output in the last quarter of 2013 and first quarter of 2014 stimulated production of WDM. It is estimated that production of WDM will remain strong because high prices and limited supply of WDM on the world market should stimulate production in 2014.

Consumption:

In 2013, domestic use of WDM increased in response to higher availability and reduced exports. In 2014 domestic consumption is expected to continue to grow due to greater availability on the market.

Trade:

In 2013, EU-28 exports of WDM declined mainly because of reduced shipments to Algeria. It is estimated that in 2014 exports will recover because of growing supplies, reduced export prices and continuing import demand. In the first two months of 2014, EU-28 exports of WDM were 22 percent over the previous year's level, mainly due to higher shipments to Algeria.

Policy Section:

European Milk Market Observatory Launched

On April 16, 2014, Commissioner for Agriculture Dacian Cioloș announced the launch of the European Milk Market Observatory (MMO). The MMO makes EU and world dairy pricing and production info available on its dedicated [webpage](#)^[1]. This new Commission initiative serves a dual purpose: 1) to increase transparency of the dairy market; and 2) to help the EU dairy sector adapt to the new market environment when quotas are abolished on March 31, 2015. The idea of the MMO originated from the work of the High Level Experts' Group on Milk (HLG), which was set up to suggest solutions in response to the 2009 dairy crisis. The recommendations of the HLG resulted in the [Milk Package](#),^[2] which was implemented in October 2012 allowing EU dairy farmers to collaborate in producer organizations (PO) and negotiate collective supply contracts with dairy processors. The MMO should help the EU dairy sector make a smooth transition to a deregulated dairy market when the EU dairy quota system ends next year.

New Common Agricultural Policy (CAP) and the End of the EU Dairy Quota System

On April 17, 2014, the latest EU Common Agricultural Policy (CAP) reform was finalized as the European Parliament (EP) voted in favor of the delegated acts (technical rules to implement the CAP). These delegated acts include specifications for how farmers earn direct payments under the new CAP, which are also known as the “greening” measures. These measures also specify conditions of use for market safety net tools. Because of the current favorable market situation, the Commissions decided not to open a Private Storage (PS) scheme for 2014. However, if a market crisis were to occur, a scheme could still be put in place at a later date.

The discussion on the end of the EU dairy quota system continues as more Member States (MS) are likely to face super levy payments for overshooting their country’s production quota for the quota year 2013/14. The discussion, which began after the new CAP agreement was reached, centered on requests from some MS to modify the so-called soft landing measures for the last year of the quota system, which ends on March 31, 2015. Member States fear that next year’s super levy fines for overshooting the 2014/15 production quota will increase as farmers are expected to continue increasing production even though there was no increase in this year’s production quota as was the case in previous years. Member States also questioned the legality of super levy fines, which will be imposed after the end of the current CAP. The MS also argued that the production limitation made no sense under the current favorable world dairy market conditions. However, Agriculture Commissioner Ciolos dismissed these claims, stating that the 2008 CAP was agreed to by the MS and there was no qualified majority of MS that would approve any additional regulation as dairy production in many MS stays well within quota levels.

New Dairy Quotas for Ukraine Opened

New dairy quotas for Ukraine agreed upon under the [EU – Ukraine Association Agreement](#)^[3] for MY 2013-2014 were opened expeditiously to allow Ukrainian dairy exporters to take full advantage of these quotas. The period for exports to qualify for this year’s quotas was extended through [Commission Implementing Regulation \(EC\) No 415/2014](#).^[4] These quotas include an 8,000 MT quota for liquid milk and fresh and fermented milk products, 1,500 MT of milk powder and 1,500 MT for butter and butterfat.

^[1] http://ec.europa.eu/agriculture/milk-market-observatory/index_en.htm

^[2] http://ec.europa.eu/agriculture/milk/milk-package/index_en.htm

^[3] <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1039>

^[4] <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0415&rid=5>

